
Caprio says pensions must change

By Victoria Goff / The Sun Staff

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WESTERLY — The time has come to change the state's pension plan for state, municipal and education employees, but that may not mean teachers need to retire before this school year ends to keep their current plans.

That is according to Rhode Island General Treasurer Frank T. Caprio, who met with The Sun last week to weigh in on Gov. Donald L. Carcieri's plan to plug the state's \$357-million budget deficit for the current fiscal year by June 30.

Carcieri has proposed setting a minimum retirement age of 59 for state and municipal employees and eliminating annual cost of living adjustments of 3 percent for existing employees, effective April 1.

School officials have said they fear an exodus of teachers before the close of the current school year.

But Caprio explained what is not defined in the governor's proposal: "As long as the legislature passes the bills sometime before April 1, we as a state can stop at that point paying in as much money as the employer into the pension plan to save those dollars. The fact that someone continues to work until June 30 isn't what's costing us or saving us money. It's the fact that the law has passed."

The governor's plan is now under review by state lawmakers.

The bulk of the expected annual savings — \$100 million — is from eliminating the automatic 3-percent cost of living adjustment, Caprio said. The annual increase applies after the third January after retirement.

In 2005, the state established a minimum retirement age of 59 for then-employees with less than 10 years of experience, about one-third of existing workers, Caprio said. The governor's proposal would apply to remaining workers.

Employees — except state police and judges, who have different pension schedules — are currently eligible for retirement after 28 years of service, when they can collect 60 percent of their pay. Pensions are capped at 80 percent of pay when workers reach 35 years of service.

The state's current unfunded liability for pensions is about \$7 billion, Caprio said. Taxpayers pay about \$500 million annually for state and municipal pensions combined.

The governor has also hinted at offering combined contribution plans, such as a 401(k), to new employees, instead of defined pensions.

A 19-member pension study commission has mulled over a number of options, Caprio said, including a hybrid plan of a limited defined pension and a 401(k) for new and current employees with less than 10 years of service. Or, allow employees to collect what they have accrued so far under the existing pension but switch their plan to a 401(k).

At the very least, Caprio said the state needs to modify its existing defined contribution plan because "they really don't have too many places to turn at this late of a date in the budget cycle to find that large chunk of money in one place."

The commission, created last year by the General Assembly, is expected to release its study on pension reform within the next month, he said.

"These discussions in the past would have been very difficult even to start," he said. "I think the positive thing from the taxpayers' side of this discussion is that these discussions haven't just started, they're going very rapidly...and the current circumstances are now dictating that changes like this will be made because they save money and that's why the private sector has put them in place over the last 20 years."

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